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RUEHLO/AMEMBASSY LONDON 0210

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TAGS: [PREL](#) [PGOV](#) [MZ](#)
SUBJECT: CORRUPTION CONCERNS LEAD SWEDEN AND SWITZERLAND TO
REDUCE DIRECT BUDGET SUPPORT TO MOZAMBIQUE

REF: A. MAPUTO 502
[1](#)B. MAPUTO 729

[1](#)1. (SBU) SUMMARY: Recent press reports highlight the decision of Sweden, a member of 19 donor countries (G19) who engage in direct budget support, to reduce its untargeted direct budget support to the Government of Mozambique (GRM) due to shortcomings in the areas of transparency and good governance. Switzerland has also reduced its budget support for similar reasons. This follows a recent visit by an OECD team studying the potential impact that a major corruption scandal would have on donor flows to Mozambique. The largest G19 donor, Britain, plans to maintain current levels of direct budget support, and is trending with other G19 donors towards more sector and project-specific funding. If growing concerns about transparency and governance in Mozambique lead to a crisis of confidence among major donors, a government highly dependent on donor financing could find it difficult to maintain current budget levels. END SUMMARY.

SWEDEN TO REDUCE DIRECT SUPPORT OF GRM BUDGET

[1](#)2. (U) In the July 18 edition of weekly Savana newspaper, Swedish Ambassador Torvald Akesson explained Sweden's decision to join Switzerland in reducing direct budget support to Mozambique due to lack of GRM progress on transparency and good governance indicators. Since the amount of the reduction is small, and likely to be overcome by appreciation of the Euro, Swedish officials were surprised by the significant press interest generated by their decision. Sweden is a member of the G19, which directly supports the GRM annual budget at a level projected to reach \$445.2 million in 2009, up from 2008 levels of \$383.8 million.

[1](#)3. (U) According to a G19 review of the GRM's progress, it had only achieved 23 of 41 transparency and good governance targets (6 of 18 governance-specific indicators were not achieved). While 13 members of the G19 agreed to continue direct budget support at the same rate, four donors agreed to increase their support, despite poor GRM performance. The current leadership of the G19 expresses some concern about a possible trend among member countries away from untied direct budget support toward sector and project-specific funding.

SWISS CONCERNED ABOUT DOMINO EFFECT

[1](#)4. (U) The Swiss Ambassador told USAID Director that a portion of their budget support was directly tied to progress in governance indicators and the lack of progress in key indicators therefore triggered a reduction of approximately \$500,000 of their total \$8 million assistance portfolio. While this cut is unlikely to be seen as significant, he pointed out that building support for direct budget support is difficult in European capitals and parliaments, and

reductions based on corruption and governance concerns will make it more difficult. Moreover, once one or two countries decide to cut assistance based on those concerns, other countries begin questioning their assistance program, raising the possibility that other countries will follow suit. He stressed that while the financial impact of the Swedish and Swiss reductions is minimal, the larger question of donor confidence in the GRM should generate significant concern for Mozambican leaders.

OECD STUDYING CORRUPTION AND GRM FUNDING

15. (U) On July 2, Benjamin Dickinson, Unit Manager for Governance, Peace & Security in the OECD's Policy Coordination and Development Cooperation Directorate briefed poloffs on his ongoing research into corruption and good governance issues in Mozambique. According to Dickinson, the OECD is studying the impact of any potential major corruption scandals, and any impact such a scandal would have on donor support in Mozambique, particularly the G19's direct support of the GRM's budget.

BRITAIN SECONDS G19 CONCERNS ON SLOW GRM PACE

16. (U) Britain's international development body, Department for International Development (DFID), provides the largest share of G19 direct budget support to the GRM. Some 70 percent or 47 million GBP (\$94 million) of DFID's 70 million

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GBP (\$140 million) annual budget goes to direct GRM support. In a conversation with poloff, a DFID officer echoed Swedish and Swiss concerns about the GRM's shortcomings on transparency and good governance. The current DFID policy mirrors the majority of G19 members, which is to keep direct support constant in real terms. Overall budget support as a percentage of the GRM budget continues to decrease as GRM revenue performance increases by 0.5 percent per year.

NOT ALL G19 AID IS DIRECT BUDGET SUPPORT

17. (U) While the press often reports direct donor support to the GRM at 50 percent, of this amount, completely untargeted direct budget support accounts for 25 percent of the total G19 support, with another 25 percent targeted to specific sectors, and 50 percent targeted at supporting specific projects. Swedish and British contacts confirmed that the G19 is generally moving away from completely untargeted budget support and towards designated project and sector-specific funding.

COMMENT: G19'S WAKE-UP CALL TO GRM UNLIKELY TO HAVE EFFECT

17. (SBU) Though the G19 has raised concerns about corruption and governance issues in the past, both in public statements and, more forcefully, with high-level government officials in private, this is the first time that any G19 donors have followed through with reductions in their level of direct budget support. The current G19 leadership is justifiably concerned that a donor consensus on direct budget support among its members and support from member capitals may be undermined by the Swiss and Swedish actions but also see it as an important signal to the GRM about the importance of these issues. Commitment to direct budget support is essentially what binds the G19 together as a group that carries out policy dialogue with the GRM through an often complicated process involving a variety of working-level and high-level joint committees in which process sometimes trumps

content. Swedish and Swiss reduction of direct budget support is a further expression of G19 frustration that this process has not made a significant impact on key issues. The GRM response to concerns about corruption and governance has been minimal in the past so it remains to be seen if this will lead to any action in the areas addressed by the G19 indicators. Nonetheless, with donor financing accounting for 50 percent of the total government budget, GRM officials have reason to be concerned about any potential reduction in direct budget support.

18. (U) Limited USG democracy and governance funding has limited post efforts to engage on issues of corruption and governance, except as part of other sector programs, in an area where the USG previously played a leadership role. Post requests for additional resources to focus on corruption and governance concerns could help restore this leadership position and build a coordinated program with other key donors to address fundamental issues which could threaten Mozambique's process of democratization and political stability.

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